You should read this section in conjunction with our audited combined financial statements, including the accompanying notes (collectively, the "Financial Information"), as set out in the accountant's report (the "Accountant's Report") included in Appendix I to this prospectus. Our financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountant's Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as any other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectation and projections depend on a number of risks and uncertainties over which we do not have control. For further information, see the section headed "Risk factors" in this prospectus.

OVERVIEW

We are principally engaged as a main contractor in the provision of (i) waterworks engineering services; (ii) road works and drainage services; (iii) LPM Services; and (iv) building works. We are also engaged in site formation works for the public sector in Hong Kong.

During the Track Record Period, most of the works undertaken by us were civil engineering projects for the public sector. Revenue generated from contracts granted by the Government, including WSD, CEDD, ArchSD and DSD, represented approximately 95.5%, 97.7% and 99.8% respectively of our total revenue for each of the two years ended 31 March 2014 and the six months ended 30 September 2014.

The following table sets forth a breakdown of our revenue by categories of services provided for during the Track Record Period:

	Year ended 31 March		Six months ended 30 September	
	2013	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Waterworks engineering	158,892	208,084	87,007	119,767
Road works and drainage	43,237	107,914	31,981	135,043
LPM Services	109,751	63,335	31,116	74,603
Building works	–	13,950	3,381	2,950
	311,880	393,283	153,485	332,363

The nature of our Group's business involves complex contractual terms, uncertainties in the surrounding situation of construction sites and environmental elements, such as bad weather, which may delay the progress of construction projects at which extension of time claims may be invoked and variation of works may be subsequently requested by customers. Our Group recognises the value of work performed as revenue based on the percentage of completion of the contracts. The percentage of completion of a contract is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. As such, the revenue recognised of and gross profit generated in each particular contract in the respective reporting period may be varied due to different stage of completion. Besides, construction contracts typically provide for circumstances when (i) extra payments are to be made by the customers if certain variation work has been carried out by the contractors; and (ii) liquidated damages are to be borne by the contractors if the project cannot be completed in accordance with the contract terms. Initial disagreements in the final contract sum between customers and contractors during the preparation of final accounts and negotiation on the final contract sum are common in the construction industry, and prolonged negotiation on the final contract sum are not uncommon for moderate and large scale construction contracts. During the Track Record Period the completion dates for certain projects were extended, no liquidated damages were claimed by respective customers.

BASIS OF PRESENTATION OF OUR FINANCIAL INFORMATION

Our Company was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law on 6 December 2012. Pursuant to the Reorganisation as more fully explained in the paragraph headed "Corporate Reorganisation" under the section headed "Statutory and General Information" in Appendix IV to the prospectus, our Company became the holding company of the companies now comprising our Group. The combined financial information of our Group has been prepared on a basis in accordance with the principles of the Auditing Guideline 3.340 "Prospectus and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants. The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows which include the results, changes in equity and cash flows of the companies comprising our Group for the Track Record Period, have been prepared as if the Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period.

The combined statements of financial position as at the end of the reporting period have been prepared to present the assets and liabilities of the companies now comprising our Group which were in existence on those dates.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on combination.

Further information on the basis of preparation of financial information is set out in Note 2 of the Accountant's Report contained in Appendix I to this prospectus.

SIGNIFICANT FACTORS AFFECTING OPERATING RESULTS AND FINANCIAL CONDITIONS OF OUR GROUP

The results of operations and financial condition of our Group have been and will continue to be affected by a number of factors, including those discussed below.

Reliance on contracts granted by the Government

We rely substantially on the contracts granted by the Government. During the Track Record Period, the revenue generated from Government contracts accounted for over 90% of our total revenue. Since most of the projects are awarded by tendering, there is no assurance that our Group be able to secure contracts from the Government. In the event if we failed to obtain new contracts or the Government's budget in construction of waterworks engineering projects, road works and drainage projects and prevention on landslip and mitigation on slope decreased substantially, our financial performance would be adversely affected.

Pricing of our construction services

We obtain our construction projects mainly by way of tender. We prepare our tender based on our estimated project costs plus a mark-up margin. If the tender bid is set too high, we may lose the tender to our competitors. Therefore, there is no assurance for us to submit competitive bids without affecting profitability. Although our estimates on projects on hand had no material adverse impact on our profitability, there may be adverse fluctuations to costs, we shall take measures to strengthen costs control, including the sourcing of subcontractors of lower costs. If we cannot take effective measures to mitigate the change, our tender bid and our financial results would be adversely affected.

Fluctuations in cost of service

In determining the tender price, our Group needs to estimate the cost of service including the subcontracting fees, material costs, direct workers and overheads. The actual cost of service at the time of implementation may differ from the original estimates. In the event that fluctuations is unfavourable and such fluctuations exceed the compensation provided by customer, the financial performance and profitability of our Group will be adversely affected.

Change in scope of works and variation orders

Our customers may change the scope of work during implementation stage by issuing variation orders. The value of the variation orders has to be agreed between the customers and our Group but if both parties failed to reach an agreement, the customer's engineer is authorised to fix the value as think fit. In the event the value fixed by the customer's engineer is below the cost of executing the variation order, the results, liquidity and financial position of our Group will be adversely affected.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The Financial Information has been prepared based on the historical cost basis, In addition, the Financial Information includes the applicable disclosures required by the GEM Listing Rules and the Companies Ordinance.

We have identified certain accounting policies that are significant to the preparation of our combined financial statements. Notes 2 and 3 to Appendix I to this prospectus include a summary of significant accounting policies and key sources of estimation uncertainty used in the preparation of our combined financial statements. The determination of these accounting policies is fundamental to our financial condition and results of operations, and requires management to make subjective and complex judgments about matters that are inherently uncertain based on information and data that may change in future periods. As a result, determinations regarding these items necessarily involved the use of assumptions and subjective judgments as to future events and are subject to change, and the use of different assumptions or data could produce materially different results. In addition, actual results could differ from estimates and may have a material adverse effect on our business, financial condition, results of operations and cash flows. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimates may differ significantly from management's current judgments. We believe the following represents our critical accounting judgments and estimates.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts for variation orders, claims and incentive payments to the extent that it is probable that they will result in revenue, and they are capable of being reliably measured. For projects with the Government, the total contract revenue is cross-referenced to the estimated final sum stated in the contractor's performance report as described in the paragraph headed "Contractors' Performance Index System" in the section headed "Regulatory Overview". The estimated final sum provided in the contractor's performance report is indicative and is adjusted to exclude any amount for contingency sums and compensation that it is uncertain whether economic benefits will flow to our Group. Contract costs include costs that relate directly to the specific contract and costs that are attributable to contract activity in general and can be allocated to the contract. Costs that relate directly to a specific contract comprise site labour costs (including site supervision); costs of subcontracting; costs of materials used in construction; depreciation of equipment used on the contract; costs of design, and technical assistance that is directly related to the contract.

When the outcome of a construction contract can be estimated reliably, revenue and contract costs associated with the construction contract are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of each of the Track Record Periods.

The outcome of construction contract can be estimated reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that the economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of a construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

When it is probable that total contact costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contact customers.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue from construction contracts is recognised based on percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

Interest income is recognised using the effective interest method, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and applicable selling expenses.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are charged to the profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

Joint arrangements

Our Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to our Group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

Our Group classifies its interests in joint arrangements as either:

- Joint venture: where the group has rights to only the net assets of the joint arrangement; or

- Joint operation: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, our Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangement structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

Our Group's joint arrangements are classified as joint operations under HKFRS 11 taking into account the relevant joint arrangement agreements that specify that the parties to the joint arrangements have rights to the assets and obligations to the liabilities relating to the joint arrangements.

Our Group accounts for its interests in the joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Employee benefits

Defined contribution retirement plan

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are recognised as an expense in profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Short-term employee benefits

Short-term employee benefits are recognised when they accrue to employees. In particular, a provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of reporting period. Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

OPERATING RESULTS DURING THE TRACK RECORD PERIOD

Set out below are extracted from the combined statements of comprehensive income of the Accountant's Report included in Appendix I to this prospectus for the two years ended 31 March 2014 and the six months ended 30 September 2014, which should be read in conjunction with the Accountant's Report set forth in Appendix I to this prospectus.

	Year ended 31 March		**Six months ended 30 September**	
	2013	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Revenue	311,880	393,283	153,485	332,363
Cost of services	(281,953)	(341,666)	(132,218)	(313,087)
Gross profit	29,927	51,617	21,267	19,276
Other income	1,384	948	245	1,636
Other gains and losses	514	155	33	164
Administrative expenses	(19,660)	(20,509)	(11,143)	(11,554)
Operating profit	12,165	32,211	10,402	9,522
Finance costs	(2,675)	(2,793)	(1,358)	(906)
Profit before income tax expense	9,490	29,418	9,044	8,616
Income tax expense	(3,762)	(5,790)	(2,766)	(1,181)
Profit and total comprehensive income for the year/period	5,728	23,628	6,278	7,435
Attributable to:				
Owners of the Company	1,483	20,043	4,338	4,186
Non-controlling interests	4,245	3,585	1,940	3,249
	5,728	23,628	6,278	7,435

(A) Principal components of combined statements of comprehensive income

Revenue

Revenue represents construction contract revenue from contract work performed. During the Track Record Period, revenue of our Group mainly generated from the provision of (i) waterworks engineering services; (ii) road works and drainage services; (iii) LPM Services; and (iv) building works.

The recognition of revenue is based on the percentage of completion of the contracts, determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. The amount of revenue recognised represents amount received and receivable from contract work performed and recognised in the respective period.

Set out below is an analysis of the revenue during the Track Record Period by categories of services provided:

	Year ended 31 March		**Six months ended 30 September**	
	2013	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Waterworks engineering	158,892	208,084	87,007	119,767
Road works and drainage	43,237	107,914	31,981	135,043
LPM Services	109,751	63,335	31,116	74,603
Building works	–	13,950	3,381	2,950
	311,880	393,283	153,485	332,363

Our Group's revenue for the year ended 31 March 2014 increased by approximately 26.1% or approximately HK$81.4 million as compared to that for the year ended 31 March 2013. The increase in revenue contribution from waterworks engineering category, road works and drainage category and building works category amounted to approximately HK$49.2 million, HK$64.7 million and HK$14.0 million respectively, net of decrease in LPM Services category of approximately HK$46.4 million.

The increase in revenue in the waterworks engineering category was attributable to the additional revenue generated from two projects 6/WSD/11 and 15/WSD/11 of a total of approximately HK$27.3 million and HK$28.6 million respectively plus share of revenue from Kwan On – China Geo and Kwan On – U-Tech 2 for contracts 4/WSD/11 and 9/WSD/13 of approximately HK$8.7 million and HK$2.5 million respectively, net of decrease in revenue as a result of completion of four projects 24/WSD/09, 26/WSD/06, 13/WSD/07 and 6/WSD/06 of approximately HK$13.3 million and decrease in revenue from two projects 11/WSD/08 and 10/WSD/10 of approximately HK$4.7 million in total.

Our Group has been awarded one new project in the road works and drainage category during the year ended 31 March 2014, namely KL/2012/03, with the awarded sum of approximately HK$811.4 million. The new project KL/2012/03 has contributed approximately HK$33.9 million in revenue. In addition, project DC/2012/05 received extra variation orders and generated additional revenue of approximately HK$52.4

million. The increase in revenue generated from the aforesaid 2 projects has offset, to a certain extent, the reduction in revenue contribution from 4 completed or substantially completed projects, namely TK/2008/01, YL/2009/01, YL/2008/01 and DC/2009/25.

The decrease in revenue in the LPM services category was attributable to the decrease in contribution from five completed or close-to-completion projects, namely 20090074, GE/2010/21, GE/2011/03, SX X121 and 20100095 of approximately HK$55.9 million in total, net of the increase from three newly awarded projects GE/2012/11, GE/2013/06 and GE/2013/17 of approximately HK$9.7 million in aggregate. In general, completion rate for projects at early stage is usually higher than the project at later stage since works undertaken at early stage are mainly preparatory and uncomplicated works which are straightforward for the purpose of measuring the works performed. As such, new projects generally have a higher revenue contribution.

The increase in revenue from building works category was mainly attributable to inception of the new project SD B807 and another project in private sector during the year ended 31 March 2014.

Turnover for the six months ended 30 September 2014 increased by approximately 116.5% or approximately HK$178.9 million as compared to that for the six months ended 30 September 2013. The increase was mainly attributable to the increase in revenue generated from 4 projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which were commenced in the second half of 2013. Revenue contributed from these four projects during the six months ended 30 September 2014 amounted to approximately HK$159.8 million.

During the Track Record Period, our Group has formed two joint operations, namely, Kwan On – China Geo and Kwan On – U-Tech 2, which have been awarded the contracts 4/WSD/11 and 9/WSD/13 respectively. Our Group shares revenue and expenses derived from the joint operations in accordance with our Group's participating interests pursuant to the terms of the agreement entered into between Kwan On and the relevant joint operator under HKFRS 11.

Revenue, expenses and profit attributable to our Group arising from the contracts 4/WSD/11 and 9/WSD/13 are summarised as follows:

					Year ended 31 March 2014			Year ending 31 March 2015			Year ending 31 March 2016		
Contract Number	Estimated contract sum	Estimated total revenue to be received by our Group	Estimated total expenses to be recognised by our Group	Estimated total profit attributable to our Group	Revenue recognised by our Group	Costs recognised by our Group	Profit attributable to our Group	Expected revenue to be recognised by our Group	Expected costs to be recognised by our Group	Expected profit attributable to our Group	Expected revenue to be recognised by our Group	Expected costs to be recognised by our Group	Expected profit attributable to our Group
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
4/WSD/11	285.80	145.76	140.23	5.53	8.70	8.36	0.34	87.98	84.53	3.45	29.56	28.40	1.16
9/WSD/13	56.18	28.09	26.40	1.69	2.53	2.37	0.16	10.01	9.41	0.60	10.23	9.62	0.61

For further details of the respective accounting treatments of the joint operations, please refer to the paragraph headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under the section headed "Business" in this prospectus.

Cost of services

Cost of services consists of (i) subcontracting charges; (ii) direct staff costs; (iii) materials; (iv) plant and depreciation; (v) overhead costs; (vi) provision for obsolete stocks; and (vii) other contract costs. Subcontracting charges represent the costs paid to our subcontractors for carrying out certain parts of the contract works, such as excavation, formwork and rebar fencing. Direct staff costs include payroll and benefits provided to direct workers involved in construction projects. Materials include the direct costs for the purchase of various kinds of pipes, fittings, steel bars, concrete and asphalt, which are directly attributed to construction projects. Plant and depreciation include (i) depreciation charges for plant, equipment and motor vehicles used in projects and (ii) equipment rental charges for projects. Overhead costs principally comprised insurance premium paid for construction project, transportation expenses and levy charges.

Other contract costs represent adjustments to cost of those contracts with foreseeable losses in prior years.

The following table set out the summary of cost of services by nature during the Track Record Period:

	Year ended 31 March		**Six months ended 30 September**	
	2013	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Subcontracting charges	187,555	221,878	87,953	231,829
Direct staff costs	55,402	57,585	27,611	35,632
Materials	26,455	24,063	5,925	21,284
Plant and depreciation	4,578	4,958	2,345	2,584
Overhead costs	24,846	31,982	14,253	19,436
Impairment loss on other receivables	989	107	87	–
Provision for obsolete stocks	–	1,561	–	124
Other contract costs	(17,872)	(468)	(5,956)	2,198
	281,953	341,666	132,218	313,087

The amount of each of the elements of cost of service and the composition of cost of service depend on various factors. The amount of subcontracting charges depends on the complexity and skills involved in the subcontracting works in our Group's construction projects. When a construction project requires construction procedures or techniques that are beyond our Group's expertise or permitted areas, subcontractors are engaged and more subcontracting charge is incurred in general. The amount of construction material costs depends on the volume and price of materials used in construction projects. Direct staff costs are primarily related to the number of direct workers of our Group. The amount of plant and depreciation depends on the types and quantity of machinery and equipment required in our construction projects. The level of overhead costs incurred depend mainly on (i) the insurance premium rates obtained from insurance brokers and/or insurance companies, (ii) the amount of construction waste to be disposed of and the level of transportation costs which depends on the distance between locations of work sites and our site offices. Other contract costs refer to the adjustments to cost of those contracts with foreseeable losses in prior years. Impairment loss on other receivables arises when the recoverable amount of receivable for materials sold, recharged and cash advancement to subcontractors is less than the carrying amount, the difference is recognised in profit and loss. The provision for obsolete stocks of approximately HK$1.6 million made during the year ended 31 March 2014 represented inventories purchased for projects 24/WSD/09 and 10/WSD/10 at commencement based on the drawings and information in tender documents. The usage for inventories for 24/WSD/09 was doubtful due to change in design by the customer. The usage of such inventories for project 10/WSD/10 is uncertain because it is uncertain when will customer issue work orders for utilisation of the inventories.

Other income

Other income includes mainly refund from insurance claims to recover amounts paid for work injuries, sales of scrap materials, training subsidies received from Construction Industry Council, service income received for provision of project management and quantity surveying services, imputed interest on non-current retention receivable, interest income from an insurance contract and interest income received from banks and government grants received from the Transport Department for ex-gratia payment for retirement of vehicles. The accidents and work injuries during the Track Record Period is disclosed in the paragraph headed "Safety policy" under the "Business" section in this prospectus.

The following table set out the summary of other income during the Track Record Period:

	Year ended 31 March		Six months ended 30 September	
	2013	2014	2013	2014
	HK$'000	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Training subsidies	–	259	55	168
Refund from water charge overpaid	–	68	–	–
Refund from insurance claims	248	218	–	91
Income from sales of scrap materials	281	–	–	98
Interest income from life insurance investment	36	31	20	–
Imputed interest on non-current retention receivables	655	250	113	141
Service income	–	–	5	460
Bank interest income	60	55	27	17
Government grants	–	–	–	508
Sundry income	104	67	25	153
	1,384	948	245	1,636

Other gains and losses

Other gains and losses represent gains and losses on disposal of property, plant and equipment.

Administrative expenses

Administrative expenses comprised primarily (i) staff costs; (ii) rental expense; (iii) entertainment expense; and (iv) professional fees. The following table sets out the administrative expenses by nature during the Track Record Period:

	Year ended 31 March		**Six months ended 30 September**	
	2013	**2014**	**2013**	**2014**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(Unaudited)	
Staff costs (including directors' remuneration)	7,919	10,008	4,410	5,513
Rent	1,253	1,151	665	777
Depreciation	280	34	17	283
Travelling	893	836	451	415
Insurance	507	499	177	363
Professional fees	4,809	5,305	2,825	1,367
Entertainment	1,653	1,104	589	505
Licences and registration	555	209	162	207
Others	1,791	1,363	1,847	2,124
	19,660	20,509	11,143	11,554

Staff costs comprised compensation and benefits provided to administrative staff and our Directors. Rent represented the operating lease rentals paid for our Group's head office, a director's quarter, a staff quarter and warehouses. Depreciation classified as administrative expenses represented equipment and motor vehicles which were not involved directly in our construction projects. Travelling expenses were parking fees, petrol costs, toll fees for travelling costs incurred not directly related in our construction projects. Professional fees included audit fees, legal expenses and other professional fees incurred for the proposed Placing.

Insurance comprised expenses for office property, employees' compensation insurance and a life insurance policy for Mr. Tony Wong. The decision of buying the insurance was taken out by the board of the Group in consideration of Mr. Tony Wong as an important member of the private business. In the selection and evaluation of the investment, the Group has considered the risks associated. The policy was chosen because it provided guaranteed minimum interest rate of 3% per annum, which was higher than the average time deposits rate with banks. The Group obtained a ten year bank loan from Shanghai Commercial Bank Limited in March 2012 which was secured by the life insurance policy for Mr. Tony Wong. According to the banking facility letter dated 20 March 2012 from Shanghai Commercial Bank Limited in respect of the loan, the interest rate for the ten-year bank loan drawn by the Group is USD prime rate minus 0.5% per annum and USD prime rate was 3.25% per annum as at the date of the banking facility letter. Therefore, the guaranteed minimum interest rate of 3% per annum of the life insurance policy for Mr. Tony Wong was higher than the effective interest rate of the loan of 2.75%. The insurance was surrendered in March 2014.

The Group has no plan to buy similar life insurance contracts after Listing. The Group will adhere to financial prudence and adopts a conservative investment strategy after Listing. The Group will consider making principal-protected investments with the pledged deposits only for the purpose to earn a higher return.

Entertainment comprised expenses incurred for food and beverage. Licences and registration mainly include vehicle renewal fees and audit fee for ISO certification. Other administrative expenses included mainly reimbursement of training expense for staff, repairs and maintenance charges for office equipment and computer systems, printing and stationery, telecommunication charges, water and electricity and consultancy fee.

Finance costs

Finance costs include interest expense and imputed interest on non-current retention payables.

Interest expenses represent interest on bank borrowings and finance leases. Interest on bank borrowings was incurred by Kwan On, UEL, UECL and UFCL for bank loans and overdrafts raised by them and were determined by reference to current prime or HIBOR for borrowings denominated in Hong Kong dollar and current US dollar prime rate for borrowings denominated in US dollar.

Imputed interest expense on non-current retention payables represent the amortisation of retention withheld from subcontractors not payable within one year using the effective interest method.

Income tax expense

Our Group's revenue during the Track Record Period was derived in Hong Kong, and our Group was subject to profits tax in Hong Kong. Provision for Hong Kong profits tax is provided at the statutory profits tax rate of 16.5% of the estimated assessable profits for the Track Record Period. The effective tax rates of our Group for each of the two years ended 31 March 2014 and the six months ended 30 September 2014 were 39.6%, 19.7% and 13.7% respectively. The effective tax rate for the two years ended 31 March 2014 is higher than the statutory tax rate of 16.5% for limited liability companies mainly due to loss incurred by several subsidiary companies and thus resulted in a lower combined net profit. The reason for a lower effective tax rate for the six months ended 30 September 2014 than the statutory tax rate of 16.5% was that there was an increase in utilisation of tax loss brought forward to offset against taxable profits generated.

(B) Management discussion and analysis

Comparison of the year ended 31 March 2014 and 31 March 2013

Revenue

Our Group's revenue for the year ended 31 March 2014 amounted to approximately HK$393.3 million, as compared to approximately HK$311.9 million for the year ended 31 March 2013. The surge was mainly due to an increase in revenue generated from the waterworks engineering category by approximately HK$49.2 million, road works and drainage category of approximately HK$64.7 million and building works category of approximately HK$14.0 million, net of the effect from decreasing revenue generated from LPM Services category with net contribution to revenue of approximately HK$46.4 million.

For the year ended 31 March 2014, our Group had undertaken a total of 23 projects, generating an average construction income of approximately HK$17.1 million per project; whereas, for the year ended 31 March 2013, our Group had undertaken 17 projects, generating average construction income of approximately HK$18.3 million per project.

Cost of services

Cost of services increased from HK$282.0 million for the year ended 31 March 2013 to HK$341.7 million for the year ended 31 March 2014, represented an increase of approximately HK$59.7 million. The increase was mainly attributable to the increase in insurance expense of approximately HK$5.1 million, or by 67.1% for contractor's all-risk and employee compensation insurance acquired upon commencement of new projects. Material costs decreased by approximately HK$2.4 million because of completion of contract TK/2008/01 and GE/2011/03. Other contract costs amounted to approximately HK$0.5 million credit for the year ended 31 March 2014 while it was approximately HK$17.9 million credit for the year ended 31 March 2013. The change was due to costs incurred during the year ended 31 March 2014 less than the cost incurred during the year ended 31 March 2013 for certain contracts with expected loss recognised in prior years.

The provision for obsolete stocks of approximately HK$1.6 million made during the year ended 31 March 2014 represented inventories purchased for projects 24/WSD/09 and 10/WSD/10 at commencement without usage. The usage for inventories for 24/WSD/09 was doubtful due to change in design by the customer. The usage of such inventories for project 10/WSD/10 is uncertain because it is uncertain when will customer issue work orders for utilisation of the inventories.

Gross profit and gross profit margin

The gross profit margins by categories of works performed are set out below:

	Year ended 31 March	
	2013	**2014**
Waterworks engineering	14.8%	14.7%
Road works and drainage	-10.4%	22.0%
LPM Services	11.6%	-5.0%
Building works	–	14.9%

Our overall gross profit margin improved from 9.6% for the year ended 31 March 2013 to 13.1% for the year ended 31 March 2014. The increase was due to (i) significant improvement in gross profit margins generated from road works and drainage projects and (ii) contribution from projects in building works category awarded during the year ended 31 March 2014.

The gross profit margin for waterworks engineering remained at a similar level during the year ended 31 March 2013 and 2014.

The gross profit margin for road works and drainage category improved significantly from approximately -10.4% for the year ended 31 March 2013 to approximately 22.0% for the year ended 31 March 2014 because of decrease in expected loss arising from the project TK/2008/01 amounted to approximately HK$8.8 million. The expected reduction in loss for project TK/2008/01 was due to a claim made by us against the customer for revision of the contract sum by approximately HK$10.0 million. After discounting the effect from reduction in expected loss for the project TK/2008/01, the adjusted gross profit margin for road works and drainage category for the year ended 31 March 2014 was approximately 15.2%. The increase in the gross profit margin for road works and drainage category the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 was mainly attributable to the additional revenue generated from the variation orders received from the customer in respect of project DC/2012/05.

The decrease in gross profit margin for LPM Services category was due to payments of subcontracting charges for certain variation orders for the project SX X121 of approximately HK$1.0 million were made whilst contract revenue for the work done had not been recognised during the year ended 31 March 2014. The revenue in relation of those variation orders will be recognised as income upon finalising the rate with the customer. In addition, the estimated contract sum for project GE/2011/03 has been adjusted downwards because reduction in the quantity of works upon expiry of contract period and payments to a subcontractor upon completion of works while income has not been certified and received from customer.

Our Group has been awarded two new contracts in the building works category during the year ended 31 March 2014, which generated gross profit of approximately HK$2.1 million in total.

Other income

Other income for the two years ended 31 March 2014 amounted to approximately HK$1.4 million and HK$0.9 million respectively. Other income for the year ended 31 March 2014 mainly comprised amortisation of non-current retention receivables of approximately HK$ 0.3 million, compensation received for employee's compensation of approximately HK$0.2 million and training subsidy provided by Construction Industry Council of approximately HK$0.3 million.

Other gains and losses

Our Group recorded other gains of HK$0.2 million for the year ended 31 March 2014 and HK$0.5 million for the year ended 31 March 2013. There had been 17 and 10 motor vehicles and construction equipment disposed of in each of the year ended 31 March 2013 and 2014 respectively. The decrease was mainly due to construction equipment and motor vehicles with higher net book values were disposed of while proceeds generated were similar to the prior year.

Administrative expenses

Administrative expenses for the year ended 31 March 2014 amounted to approximately HK$20.5 million, representing an increase of approximately 4.3% compared to the year ended 31 March 2013. The main reason for the increase was due to increase in staff costs of approximately HK$2.2 million as salary increment to staff and bonus paid.

Finance costs

Our Group recorded finance costs of approximately HK$2.8 million and HK$2.7 million for each of the year ended 31 March 2014 and 2013 respectively. The amount of finance costs incurred for the year ended 31 March 2014 was the same as during the year ended 31 March 2013 because the interest-bearing borrowings had maintained at similar level throughout the year, except that bank overdrafts had been fully settled at end of March 2014.

Income tax

The effective tax rates for year ended 31 March 2014 decreased to 19.7% from 39.6% in the year ended 31 March 2013. The reason for decrease in effective tax rate was because of the increase in utilisation of tax loss brought forward to offset against taxable profits generated in the year ended 31 March 2014.

Our Directors confirmed that our Group had made provision for all relevant taxes and paid all relevant taxes that were due as at Latest Practicable Date. Saved as disclosed in the paragraph headed "Internal control" in the section headed "Business" in this prospectus, we are not aware of any tax dispute or unresolved tax issues.

Profit and total comprehensive income

Our Group's profit increased from approximately HK$5.7 million for the year ended 31 March 2013 to approximately HK$23.6 million for the year ended 31 March 2014. The improvement was mainly attributable to the increase in gross profit generated of approximately HK$21.7 million as a result of decrease in expected loss arising from the project TK/2008/01 amounted to approximately HK$8.8 million, net of increase in staff costs of approximately HK$4.5 million.

Comparison of the six months ended 30 September 2013 and 30 September 2014

Revenue

Our Group's revenue for the six months ended 30 September 2014 was approximately HK$332.4 million, as compared to HK$153.5 million for the six months ended 30 September 2013. The leap in revenue was mainly due to an increase in revenue contribution from the contract KL/2012/03 of approximately HK$107.2 million and 3 contracts for LPM Services namely GE/2012/11, GE/2013/06 and GE/2013/17, which together generated revenue contribution of approximately HK$52.6 million.

For the six months ended 30 September 2014, our Group worked on a total of 20 projects, deriving average construction income of approximately HK$16.6 million; whereas, for the six months ended 30 September 2013, our Group worked on 17 projects, deriving average construction income of approximately HK$9.0 million. The increase in the average income per project for the six months ended 30 September 2014 was due to the progress for 4 projects KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which contributed a total of approximately HK$159.8 million, representing approximately 48.0% of our revenue for the six months ended 30 September 2014.

Cost of services

Our Group's cost of services increased from approximately HK$132.2 million for the six months ended 30 September 2013 to HK$313.1 million for the six months ended 30 September 2014, representing an increase of approximately HK$180.9 million or 136.8%. The substantial increase was mainly due to (i) increase in subcontracting charges by approximately HK$143.9 million, (ii) increase in materials costs by approximately HK$15.4 million, (iii) increase in overhead costs of approximately HK$5.2 million and (iv) increase in other contract costs by approximately HK$8.2 million. The increase in subcontracting charges was mainly due to the increase in works arising from the new contracts, mainly KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 which amounted to HK$108.7 million for the six months ended 30 September 2014. The increase in materials costs was mainly attributable to (i) materials purchased for project KL/2012/03 and (ii) the utilisation of inventories brought forward, in particular, for contracts 24/WSD/09 and 6/WSD/11. Increase in overhead costs represent the initial start-up costs for new projects, including the costs relating to establishment of site office, purchase of facilities and insurance costs for the new projects.

Gross profit and gross profit margin

The gross profit margins by categories of works performed are set out below:

	Six months ended 30 September	
	2013	**2014**
Waterworks engineering	9.0%	-2.4%
Road works and drainage	38.6%	10.6%
LPM Services	4.2%	9.5%
Building works	4.8%	-28.4%

The gross profit margin for waterworks engineering category dropped from approximately 9.0% for the six months ended 30 September 2013 to approximately -2.4% for the six months ended 30 September 2014. The drop was due to increase in costs incurred, in particular, for 24/WSD/09 and 6/WSD/11. The contract 24/WSD/09 was in maintenance period during the six months ended 30 September 2014. Additional costs were incurred for 24/WSD/09 for rectification works and outstanding works. Interim payment certificate will be issued by the customers subject to satisfaction of our works and thus the revenue had not been recognised on the ground that recoverability was uncertain. As such, our Group recorded a gross loss for 24/WSD/09 of approximately HK$2.1 million. For contract 6/WSD/11, additional subcontracting fees were paid as a result of the additional work performed by the subcontractor regarding to excavation of rock and the revenue had not been recognised as the recoverability was uncertain, which led to a gross loss of approximately HK$15.1 million during the six months ended 30 September 2014.

Gross profit margin for road works and drainage decreased from approximately 38.6% for the six months ended 30 September 2013 to approximately 10.6% for the six months ended 30 September 2014. The high gross profit margin for the six months ended 30 September 2013 was attributable to a reversal of expected loss of approximately HK$8.8 million for project TK/2008/01.

Gross profit margin for LPM Services improved from approximately 4.2% for the six months ended 30 September 2013 to approximately 9.5% for the six months ended 30 September 2014. The improvement was due to increase in gross profit generated from 2 of the 3 new contracts, namely GE/2012/11 and GE/2013/06, which commenced in late 2013.

Gross profit margin for building works was decreased from approximately 4.8% for the six months ended 30 September 2013 to approximately -28.4% for the six months ended 30 September 2014. The negative gross profit recorded in the six months ended 30 September 2014 was due to (i) additional subcontracting fees paid for variation orders for maintenance works after completion of main works for a private sector project and (ii) extra costs for additional staff assigned to a demolition project (SD B807). Since these extra costs incurred were dedicated to building works projects which represent contract costs as defined under HKAS 11 "Construction Contracts" while the revenue had not been recognised on the ground that recoverability was uncertain, the relevant costs had been charged to cost of service.

Other income

Other income for the six months ended 30 September 2014 increased to approximately HK$1.6 million, compared to HK$0.2 million for the six months ended 30 September 2013. The increase was due to (i) a receipt of approximately HK$0.2 million from a potential joint venture partner for reimbursement of professional fee incurred for a joint tender, (ii) training subsidy received from the Construction Industry Council of approximately HK$0.2 million, (iii) refund of course fee paid to staff of approximately HK$0.1 million and (iv) government grants received from Transport Department for ex-gratia payment for retirement of vehicles of approximately HK$0.5 million.

Other gains and losses

Other gains and losses in the six months ended 30 September 2014 amounted to approximately HK$164,000 while other gains and losses of approximately HK$33,000 was recorded in the six months ended 30 September 2013, which was mainly attributable to the increase in the number of motor vehicles disposed of and replaced during the six months ended 30 September 2014.

Administrative expenses

Administrative expenses for the six months ended 30 September 2014 amounted to HK$11.6 million, increased by approximately 3.7% compared to the six months ended 30 September 2013. The main reason for the increase was due to (i) increase in staff costs by approximately HK$1.1 million for salary increment in the year 2014, (ii) increase in office insurance expenses of approximately HK$0.2 million, (iii) increase in depreciation of approximately HK$0.3 million, (iv) increase in other administrative expenses of approximately HK$0.3 million representing legal costs incurred for arranging legal opinions for new banking facilities and new tenancy agreements for our Group's new head office, payments to a recruitment agency, annual maintenance charges for our Group's new accounting system and consultancy fee paid to an independent engineering consultant, and (v) net of decrease in professional fees paid in relation to the Listing of approximately HK$1.5 million.

Finance costs

Our Group recorded finance costs of approximately HK$1.4 million and HK$0.9 million for each of the six months ended 30 September 2013 and 2014 respectively. The decrease in finance costs was mainly due to decrease in use of bank overdrafts for financing which had higher interest rates than other types of bank loans.

Income tax expense

Income tax expense decreased by approximately HK$1.6 million for the six months ended 30 September 2014 and the effective tax rate dropped to 13.7%. The reason for a lower effective tax rate than the statutory tax rate of 16.5% was that there was an increase in utilisation of tax loss brought forward to offset against taxable profits generated.

Profit and total comprehensive income

Profit and total comprehensive income for the six months ended 30 September 2014 amounted to HK$7.4 million. The improvement as compared to the net profit recorded for the six months ended 30 September 2013 of approximately HK$6.3 million was attributable to an increase in service income and government grants received during the six months ended 30 September 2014 and the decrease in tax expenses as a result of utilisation of tax losses brought forward.

ANALYSIS ON CERTAIN COMBINED STATEMENT OF FINANCIAL POSITION ITEMS AND SELECTED FINANCIAL RATIOS

(A) Analysis on certain items from combined statement of financial position

The following set forth the selected financial information of our combined statements of financial position as at 31 March 2013 and 2014 and 30 September 2014, which are extracted from the Accountant's Report included in Appendix I to this prospectus, which should be read in conjunction with the Accountant's Report set forth in Appendix I to this prospectus:

	As at 31 March		**As at 30 September**
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	9,863	9,698	11,116
Life insurance investment	1,176	–	–
Prepayments	7,453	5,368	13,453
	18,492	15,066	24,569
Current assets			
Inventories	22,164	12,078	7,757
Amounts due from customers from contract work	–	–	2,551
Trade and other receivables	53,114	84,326	128,744
Tax recoverable	1,922	1,474	1,474
Amounts due from related parties	78	88	88
Amounts due from other partners of joint operations	–	43	193
Pledged bank deposits	31,712	24,691	39,671
Cash and cash equivalents	2,844	67,041	42,153
	111,834	189,741	222,631
Total assets	130,326	204,807	247,200

	As at 31 March 2013 HK$'000	As at 31 March 2014 HK$'000	As at 30 September 2014 HK$'000
Current liabilities			
Bank overdrafts	25,836	–	–
Amounts due to customers for contract work	14,254	66,733	24,228
Trade and other payables	58,244	64,530	134,215
Amounts due to directors	9,805	1,950	1,500
Amounts due to related parties	4,962	4,675	–
Amount due to other partner of a joint operation	–	44	–
Borrowings	21,766	41,490	58,793
Finance lease payables	121	118	120
Current tax liabilities	3,044	6,686	2,394
	138,032	186,226	221,250
Net current (liabilities)/assets	(26,198)	3,515	1,381
Total assets less current liabilities	(7,706)	18,581	25,950
Non-current liabilities			
Amount due to a director	3,250	–	–
Finance lease payables	357	236	176
Deferred tax liabilities	1,084	514	508
	4,691	750	684
Total liabilities	142,723	186,976	221,934
NET (LIABILITIES)/ASSETS	(12,397)	17,831	25,266
Capital and Reserves			
Share capital	32,733	32,733	32,733
Reserves	(48,358)	(19,315)	(15,129)
Equity attributable to owners of the Company	(15,625)	13,418	17,604
Non-controlling interests	3,228	4,413	7,662
(DEFICIENCY IN ASSETS)/TOTAL EQUITY	(12,397)	17,831	25,266

Property, plant and equipment

Our Group's property, plant and machinery mainly comprised motor vehicles and construction machinery, such as excavators, crane, trucks and butt fusion machine. The carrying amount of property, plant and equipment decreased from HK$9.9 million at 31 March 2013 to HK$9.7 million at 31 March 2014 as a result of acquisition of furniture and fixtures and additional contract vehicles in accordance with the requirements of new contracts amounted to approximately HK$4.4 million, net of depreciation of approximately HK$4.1 million and disposals of net book value of approximately HK$0.5 million.

The net book value of property, plant and machinery increased to approximately HK$11.1 million as a result of depreciation for the six months ended 30 September 2014 of approximately HK$2.2 million, net of the additions for the same period of approximately HK$3.6 million. The additions during the six months ended 30 September 2014 mainly comprised of motor vehicles acquired for new projects which amounted to approximately HK$1.7 million in aggregate.

Prepayments

Prepayments comprised mainly the portion insurance paid for our Group's project which is expected to be utilised after one year. The amount of prepaid insurance as at 31 March 2014 decreased by approximately HK$2.1 million was mainly due to the amounts to be utilised within 1 year being reclassified as current assets.

The increase in prepayments as at 30 September 2014 to approximately HK$13.5 million from approximately HK$5.4 million as at 31 March 2014 was mainly due to payments of insurance premium for new contracts including KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, which will be amortised over the contract period.

Inventories

Inventories comprised contract work in progress and construction materials.

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Construction materials	11,312	5,327	3,204
Contract work in progress	10,852	6,751	4,553
	22,164	12,078	7,757

The following table set out the types of construction materials as inventories at each reporting date:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Pipes and fittings for water supply system	11,312	5,327	3,204
Subsequent sales and usage up to 31 December 2014			1,398

Construction materials as at 31 March 2013, 31 March 2014 and 30 September 2014 were approximately HK$11.3 million, HK$5.3 million and HK$3.2 million respectively. The substantial decrease as at 31 March 2014 compared with 31 March 2013 was due to increase in utilisation of materials for project 10/WSD/10 and provision for obsolete stocks made amounted to approximately HK$1.6 million during the year ended 31 March 2014. Contract work in progress represents contract costs relate to future activity on the contract and it is probable that they will be recovered. The decrease in contract work in progress as at 31 March 2014 was due to receipt of payment from customers in respect of completed projects during the period.

Inventories as at 30 September 2014 amounted to approximately HK$7.8 million, representing a drop of approximately HK$4.3 million as compared with the balance as at 31 March 2014 as a result of utilisation, in particular, in contracts 24/WSD/09 and 6/WSD/11.

Trade and other receivables

The following table sets out the components of trade and other receivables at each reporting date:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	31,798	49,663	81,814
Retention receivables	10,338	11,100	13,372
Other receivables	3,414	9,667	16,009
Prepayments and deposits	7,564	13,896	17,549
	53,114	84,326	128,744

Our Group's trade and other receivables mainly consist of progress billings receivables and retention receivables. Applications for payment are submitted to customers mostly on monthly basis, normally approximately 30 days after the date of interim payment application with the exception of project under Housing Authority, which is based on the value of works completed. It generally takes 21 days for public sector customers to issue engineer's certificate certifying the value of works for payment. For projects under the Housing Authority, it generally may take up to 60 days to get the engineer's certificate. Upon issuance of the engineer's certificate, it normally takes another 21 days for customer to settle the payment for public sector projects, while payments will be made by our private sector project customer within 30 days from date of issue of the payment certificate.

Trade receivables increased from approximately HK$31.8 million as at 31 March 2013 to approximately HK$49.7 million as at 31 March 2014 because of the increase in receivables of one newly commenced project, namely KL/2012/03 amounted to approximately HK$12.2 million.

Trade receivables increased from approximately HK$49.7 million as at 31 March 2014 to approximately HK$81.8 million as at 30 September 2014 because of increase in receivables from CEDD for new project namely, KL/2012/03 and from WSD for project 4/WSD/11.

The following table sets forth the turnover days of the trade receivables (calculated as the average of beginning and ending total trade receivables balances for the period divided by revenue for the period, multiplied by the number of the days in the period) for the periods indicated:

	Year ended 31 March		**Six months ended 30 September**
	2013	**2014**	**2014**
	days	*days*	*days*
Trade receivable turnover days	35.5	37.8	36.2

As we usually submit application for payment and certification to customers approximately 30 days after the date of previous interim payment application and the customers normally takes around 21 days to certify our work done, the overall trade receivable turnover days was over the credit term of 30 days.

Trade receivable turnover days increased from 35.5 days for the year ended 31 March 2013 to 37.8 days for the year ended 31 March 2014, which was due to the increase in receivables of one newly commenced project, namely KL/2012/03 amounted to approximately HK$12.2 million.

Trade receivable turnover days decreased to 36.2 days for the six months ended 30 September 2014. The slightly decrease was attributable to the faster repayment from CEDD for contracts GE/2012/11, GE/2013/06 and GE/2013/17 for the six months ended 30 September 2014.

The following table illustrates the ageing analysis of trade receivables based on invoice date as of the end of each of the reporting dates:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Less than 1 month	18,378	39,938	58,971
1 to 3 months	13,420	9,715	22,620
More than 3 months but less than one year	–	10	223
	31,798	49,663	81,814
Subsequent settlement up to 31 December 2014			81,697

The subsequent settlement for trade receivables up to 31 December 2014 amounted to approximately HK$81.7 million, which represents 99.9% of the balance of trade receivables as at 30 September 2014. During the Track Record Period, trade receivables with ages more than 3 months amounted to approximately nil, HK$10,000 and HK$223,000 as at 31 March 2013, 31 March 2014 and 30 September 2014. No provision for doubtful debts was made against these long outstanding trade receivables because they were collected subsequently after each reporting dates.

Retention receivables represent the retention money withheld by customers at the rates ranging from 1% to 10% of the total contract sum. Retention monies will normally be released within 21 days upon issue of maintenance certificate after receipt of the certificate for release of retention money, which is to be issued within 14 days upon expiry of the maintenance period. Retention receivables increased from approximately HK$10.3 million at 31 March 2013 to HK$11.1 million at 31 March 2014. The increase was because of retention money withheld for existing and new projects commenced during the year ended 31 March 2014 amounted to approximately HK$4.4 million, net off the effect from the release of retention money upon expiry of maintenance period of approximately HK$3.7 million. Retention receivable increased further to approximately HK$13.4 million as at 30 September 2014 because of the increase in retention withheld during the six months ended 30 September 2014 amounted to approximately HK$2.8 million, net of retention released of approximately HK$0.6 million.

Other receivables represent (i) materials sold to and receivable from subcontractors and (ii) amount due from U-Tech, the cooperation partner of Kwan On – U-Tech 1 and Kwan On – U-Tech 2.

Our Group will procure materials and re-charge subcontractors to offset subcontracting charges. Other receivables in relation to the aforesaid as at 31 March 2014 amounted to approximately HK$9.7 million while it amounted to approximately HK$3.4 million as at 31 March 2013. The increase was mainly due to materials purchased for the newly commenced project KL/2012/03. The increase in other receivables as at 30 September 2014 to approximately HK$16.0 million as compared to approximately HK$9.6 million as at 31 March 2014 was mainly attributable to the increase in costs of materials and services incurred and charged back to subcontractors of approximately HK$6.3 million.

Prepayments and deposits mainly comprise utility deposits paid for site offices and insurance costs for projects prepaid which will be amortised within 1 year. The increase in prepayments and deposits as at 31 March 2014 was due to increase in prepayments of insurance for newly commenced projects namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 amounted to approximately HK$3.2 million.

The further increase in prepayments as at 30 September 2014 was mainly due to balance of insurance premium paid for new contracts including KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 with portion that would be amortised within one year.

Amounts due to customers for contract work

Our Group recognises the value of work performed as revenue based on the percentage of completion. The percentage of completion is determined using methods that measure reliably the work performed. The methods used include reference to surveys of work performed or the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Amounts due to customers for contract work represent excess of progress billings over contract costs incurred plus recognised profits less any foreseeable losses.

Our Group makes an application for interim payment and progress billings every month. The engineers of our customers would issue a payment certificate after examination of the portion of work completed, which usually takes around 21 days from the date of application.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

The increase in amounts due to customers for contract work from approximately HK$14.3 million as at 31 March 2013 to approximately HK$66.7 million as at 31 March 2014 was mainly attributable to the four newly awarded projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17, where our Group received significant amount of contract sum at early stage mainly for (i) preliminaries such as temporary accommodation for the contractor, site office and transport for the use of the engineer, and (ii) establishing monitoring system for payment of wages. Accordingly, related payments received from the customers were significantly higher than the actual work performed and costs incurred and therefore, the surplus amounts received in excess of actual costs incurred plus the profit recognised by using the percentage of completion method, had been treated as amounts due to customers for contract works as at 31 March 2014.

The decrease in amounts due to customers for contract work as at 30 September 2014 was mainly due to further increase in the percentage of completion for projects KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 and thus more revenue had been recognised using the percentage of completion method.

Trade and other payables

The table below sets out the breakdown of our trade and other payables at each of the reporting date as stated:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	35,688	28,162	85,614
Retention payables	14,824	13,807	18,862
Other payables and accruals	7,732	22,561	29,739
	58,244	64,530	134,215

Trade payables primarily include amounts payable to suppliers of materials and subcontractors of our Group. Retention payables represent retention monies withheld to subcontractors. The retention monies are released after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the contracts with subcontractors. Other payables and accruals include salaries payable, provision for annual leave entitlement and long service payments and amount due to U-Tech, the cooperation partner of the Kwan On – U-Tech 1 and Kwan On – U-Tech 2.

The balance of trade payables decreased from approximately HK$35.7 million as at 31 March 2013 to approximately HK$28.2 million as at 31 March 2014. The decrease was mainly due to invoices from suppliers were received and formally agreed after 31 March 2014.

The increase in trade payables as at 30 September 2014 to approximately HK$85.6 million as compared to 31 March 2014 was mainly attributable to increase in subcontracting charges incurred and materials purchased payable as a result of increase in revenue.

The following table sets out the turnover days of trade payables (calculated as the average of beginning and ending trade payables balances for the period, divided by cost of services for the period, multiplied by the number of days in the period) for the period indicated:

	Year ended 31 March		Six months ended 30 September
	2013	**2014**	**2014**
	days	*days*	*days*
Trade payable turnover days	47.6	34.1	33.3

The trade payable turnover days decreased from 47.6 days in the year ended 31 March 2013 to 34.1 days in the year ended 31 March 2014. The significant decrease in trade payable turnover days for the year ended 31 March 2014 was due to decrease in trade payables from approximately HK$35.7 million as at 31 March 2013 to HK$28.2 million as at 31 March 2014. The decrease in trade payables as at 31 March 2014 was due to the payments to suppliers and subcontractors had not been agreed because the interim payment certificates for respective projects were not received from the customers. The amounts estimated to be payable to suppliers and subcontractors were accounted for as other payables and accruals as at 31 March 2014. The general credit terms granted by most of the suppliers are 30 to 45 days. Our Group will pay subcontractors after completing verification of payment requests by subcontractors against actual works completed certified by the customers and deduct any materials consumed by and/or sold to subcontractors. Since our Group usually submit application for payment and certification to our customers within 30 days after end of month and the customers normally takes around 21 days to certify our work done, the time required to complete the verification of payment requests by subcontractors, payment to subcontractors and the overall trade payable turnover days is over the credit term of 30 days.

The trade payable turnover days for the six months ended 30 September 2014 decreased to 33.3 days as a result of more promptly payment within the normal credit terms granted by suppliers.

Subsequent settlement up to 31 December 2014 of trade payables as at 30 September 2014 amounted to HK$83.4 million.

Other payables and accruals mainly represented salaries payable, provision for long service payment and annual leave unpaid, accrued expenses. The increase in other payables and accruals from approximately HK$7.7 million as at 31 March 2013 to approximately HK$22.6 million at 31 March 2014 was mainly due to increase in accruals for materials purchased and received and services rendered by subcontractors that had not been invoiced or formally agreed with suppliers as at 31 March 2014. The increase in other payables and accruals of approximately HK$29.7 million as at 30 September 2014 was mainly due to increase in accrual for goods received and costs incurred for project execution while invoices were received after balance sheet date.

Current tax liabilities and tax recoverable

Current tax liabilities increased from approximately HK$3.0 million as at 31 March 2013 to approximately HK$6.7 million as at 31 March 2014 because of the increase in net profit in the year ended 31 March 2014. Current tax liabilities went down to approximately HK$2.5 million as at 30 September 2014 as a result of payment of tax of approximately HK$5.3 million during the six months ended 30 September 2014 and provision made of approximately HK$0.9 million for the same period.

Tax recoverable represents tax overpaid for UEL and UECL due to revision of prior year's assessable profit as a result of the financial difference arose from our past contract revenue recognition policy and in accordance with HKAS 11. As at the Latest Practicable Date, our Group has been informed by the IRD that the assessments for UEL have been revised and refund of tax will be issued.

Amounts due to related parties/Directors

	As at 31 March		**As at 30 September**
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Current			
Mr. Tony Wong	9,450	1,950	1,500
Mr. Kwong	355	–	–
Related parties	4,962	4,675	–
	14,767	6,625	1,500
Non-current			
Mr. Tony Wong	3,250	–	–
	18,017	6,625	1,500

The amounts due to Directors as at 31 March 2014 decreased by approximately HK$11.1 million to approximately HK$2.0 million. The decrease was mainly attributable to the net repayment to directors of approximately HK$2.1 million and an amount of HK$9.0 million waived by a Director. The amounts due to related parties decreased by approximately HK$0.3 million during the year ended 31 March 2014 due to net repayment of approximately HK$0.3 million. The decrease in amounts due to related parties and Directors as at 30 September 2014 was mainly due to repayments during the six months ended 30 September 2014.

All amounts due to Directors had been fully settled in January 2015.

(B) Liquidity and capital resources

Our Group had met its liquidity requirements principally through a combination of internal resources, borrowings, bank overdrafts, finance leases and advances from Directors and related parties during the Track Record Period. Our Group's principal uses of cash have been, and are expected to continue to be, operational costs and investing activities.

(I) Cash flows

The following table set forth the cash flows for the year indicated:

	Year ended 31 March		Six months ended 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Net cash (used in)/from operating activities	(36,822)	73,587	(17,856)
Net cash (used in)/from investing activities	(12,526)	4,378	(18,384)
Net cash from financing activities	6,533	12,068	11,352
Net (decrease)/increase in cash and cash equivalents	(42,815)	90,033	(24,888)
Cash and cash equivalents at beginning of year/period	19,823	(22,992)	67,041
Cash and cash equivalents at end of year/period	(22,992)	67,041	42,153

Net cash (used in)/from operating activities

Our Group derives cash flow from operating activities principally from receipts for contract revenue while outflows include payments of subcontracting charges, purchase of materials, direct staff costs and other administrative expenses.

For the year ended 31 March 2013, net cash used in operating activities amounted to approximately HK$36.8 million with operating cash flows before changes in working capital amounted to approximately HK$15.8 million. The difference was primarily due to the combined effect of (i) an increase in trade and other receivables of approximately HK$14.0 million, (ii) a decrease in trade and other payables of approximately HK$26.1 million, (iii) a decrease in amounts due to customers for contract work of approximately HK$2.9 million, (iv) an increase in inventories of approximately HK$8.9 million, and (v) income tax paid of approximately HK$0.9 million net of refund of approximately HK$0.2 million.

For the year ended 31 March 2014, net cash from operating activities amounted to approximately HK$73.6 million with operating cash flows before changes in working capital amounted to approximately HK$37.6 million, which was mainly attributable to our profit before tax of approximately HK$29.4 million and a positive adjustment for depreciation of approximately HK$4.1 million. The changes in working capital was primarily due to the combined effect of (i) a decrease in inventories of approximately HK$8.5 million resulting from an increase in inventory utilisation under project 10/WSD/10 and provision for obsolete stocks, (ii) an increase in trade and other receivables of approximately HK$29.0 million attributable to increases in receivables upon the commencement of works under project KL/2012/03 of approximately HK$12.2 million during the year, increase in materials purchased and recharged to subcontractors of approximately HK$6.3 million for project KL/2012/03 and utility deposits and insurance paid for newly commenced projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/07 of approximately HK$3.2 million, (iii) an increase in trade and other payables of approximately HK$6.2 million attributable to the increases in accrued cost and payables arising from materials purchased by us that had not been invoiced and formally agreed with our suppliers, (iv) an increase in amounts due to customers for contract work of approximately HK$52.5 million because of the amounts received from our customers for four newly awarded projects, namely KL/2012/03, GE/2012/11, GE/2013/06 and GE/2013/17 were in excess of the respective costs incurred by us as well as the recognition of profits from these projects; and (v) income tax paid of approximately HK$2.3 million.

For the six months ended 30 September 2014, net cash used in operating activities amounted to approximately HK$17.9 million, which represented profit before tax of approximately HK$8.6 million, adjusted for depreciation of approximately HK$2.2 million and income tax paid of approximately HK$5.5 million, while the changes in working capital mainly comprised (i) an increase in trade and other receivables of approximately HK$52.4 million mainly attributable to projects KL/2012/03 and 4/WSD/11, (ii) a decrease in inventories of approximately HK$4.2 million due to increase in utilisation of materials, (iii) an increase in trade and other payables of approximately HK$69.5 million due to increase in subcontracting charges incurred, and (iv) a decrease in amounts due to customers for contract work of approximately HK$42.5 million for the projects KL/2012/03 due to increase in revenue recognised for advances in stage of completion for the contract KL/2012/03.

Net cash (used in)/from investing activities

Our Group's cash flows for investing activities is principally for purchase of property, plant and equipment, increase in pledged bank deposits and advances to a related company.

For the year ended 31 March 2013, our Group had net cash used in investing activities of approximately HK$12.5 million, which was primarily due to (i) purchase of property, plant and equipment of approximately HK$5.0 million; (ii) net repayment of advances to a related company of approximately HK$4.6 million; and (iii) an increase in pledged bank deposits of approximately HK$10.1 million.

For the year ended 31 March 2014, our Group had net cash from investing activities of approximately HK$4.4 million, which was primarily due to decrease in pledged deposit from grant of bank facilities of approximately HK$7.0 million and purchase of property, plant and equipment of approximately HK$4.4 million.

For the six months ended 30 September 2014, our Group had net cash used in investing activities of approximately HK$18.4 million, which was primarily due to (i) payment for purchase of property, plant and equipment of approximately HK$3.7 million, (ii) proceeds on disposal of property, plant and equipment of approximately HK$0.2 million and (iii) increase in pledged deposits of approximately HK$15.0 million to secure banking facilities granted.

Net cash from/(used in) financing activities

Our Group's cash flow for financing activities is principally for drawdown and repayment of borrowings and interest paid, advances/repayments from/to a controlling shareholder and a director, repayment of finance lease payables and proceeds from issue of ordinary shares.

For the year ended 31 March 2013, our Group had net cash from financing activities of approximately HK$6.5 million, which was primarily due to (i) proceeds from borrowings of approximately HK$52.4 million, net of repayment of borrowings of approximately HK$44.6 million, (ii) repayment of advances from a Director of HK$16.2 million, (iii) advances from Directors of HK$17.7 million, (iv) net advances from a related company of approximately HK$2.1 million, and (v) interest paid of approximately HK$2.4 million.

For the year ended 31 March 2014, our Group had net cash from financing activities of approximately HK$12.1 million, which was primarily due to (i) proceeds from borrowings of approximately HK$62.3 million, net of repayment of borrowings of approximately HK$54.6 million, (ii) proceeds from independent third party's loan of approximately HK$12.0 million, (iii) net repayment to Directors of HK$2.1 million and (iv) interest paid of approximately HK$2.7 million.

For the six months ended 30 September 2014, our Group had net cash from financing activities of approximately HK$11.4 million, which was primarily due to (i) proceeds from borrowings of approximately HK$56.0 million, net of repayment of borrowings of approximately HK$29.7 million, (ii) interest paid of approximately HK$0.8 million; (iii) repayment to an independent third party of approximately HK$9.0 million and (iv) repayment to a controlling shareholder and related parties of approximately HK$4.7 million.

(II) Net current assets/(liabilities)

The following table sets forth our Group's current assets and current liabilities as of the dates indicated:

	As at 31 March		As at 30 September	As at 31 January
	2013	**2014**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Current assets				
Inventories	22,164	12,078	7,757	13,228
Amounts due from customers for contract works	–	–	2,551	7,104
Trade and other receivables	53,114	84,326	128,744	42,863
Tax recoverable	1,922	1,474	1,474	2,012
Amounts due from related parties	78	88	88	108
Amounts due from other partners of joint operations	–	43	193	508
Pledged bank deposits	31,712	24,691	39,671	49,682
Cash and cash equivalents	2,844	67,041	42,153	29,181
	111,834	189,741	222,631	144,686
Current liabilities				
Bank overdrafts	25,836	–	–	–
Amounts due to customer for contract work	14,254	66,733	24,228	19,818
Trade and other payables	58,244	64,530	134,215	67,344
Amounts due to Directors	9,805	1,950	1,500	–
Amounts due to related parties	4,962	4,675	–	–
Amount due to other partner of a joint operation	–	44	–	–
Borrowings	21,766	41,490	58,793	49,567
Finance lease payables	121	118	120	121
Current tax liabilities	3,044	6,686	2,394	–
	138,032	186,226	221,250	136,850
Net current (liabilities)/assets	(26,198)	3,515	1,381	7,836

As at 31 March 2013, we had net current liabilities and net liabilities amounted to approximately HK$26.2 million and approximately HK$12.4 million respectively, which was attributable to the recognition of expected losses arising from three contracts TK/2008/01, 26/WSD/06 and 6/WSD/06 as amounts due to customers under current liabilities. The losses of these three projects were recognised prior to the Track Record Period which amounted to approximately HK$7.9 million, HK$14.6 million and HK$18.8 million respectively but were brought forward to the year ended 31 March 2013 in accordance with HKAS 11. Borrowings and bank overdrafts increased by approximately HK$7.9 million and approximately HK$12.8 million respectively for the year ended 31 March 2013. The increase corresponded to our increase in bank borrowings as a means to finance our construction projects. The total bank overdrafts and borrowings outstanding as at 31 March 2013 amounted to approximately HK$47.6 million, of which, approximately HK$10.7 million was not repayable within one year notwithstanding that such loans contained a repayment on demand clause. Although our Group has no reason to believe that the banks will demand immediate repayment and it is expected that such bank loans will be repaid on schedule, such loans were classified as current liabilities which resulted in a net current liabilities position for our Group as at 31 March 2013.

The loss arising from project TK/2008/01 was due to two variation orders in relation to a change in the scope of works, which resulted in extra costs for materials, direct workers and overhead costs than our original estimates multiplied by the increase in the cost for road paving because of increase in the price of bituminous materials in 2011. The prices of various road paving works with bituminous materials increased by approximately 84% in 2011 compared to the time when we submitted the tender for project TK/2008/01. Since project TK/2008/01 was completed in September 2012 and was only undergoing maintenance period as at the Latest Practicable Date, we are of the view that most of the costs for the project have been incurred and recognised in the financial statements. Our Group is currently in negotiation with the client for claims and settlement of final account to recover part of the loss for project TK/2008/01. The change in layout and purpose of use of land which led to significant change to works to be performed was an exceptional and rare incident. In the event when a contract in future is to be varied significantly, our Group will settle and finalise the valuation for the variations periodically with client before performing such variation works to monitor the profit and loss of such variations. In addition, our Group will enter into purchase agreement with material suppliers for major materials to lock the price of materials at early stage.

The loss arising from contract 26/WSD/06 was attributable to a reduction in contract sum by the customer. The deletion was requested by client due to the slower progress than originally scheduled. As the location of the project was at the urban area, the progress of works was affected by the interfacing issues with concerned parties nearby, including schools, adjacent private and public developments, etc. Our site management has put significant efforts to maintain close coordination of the concerned parties to minimise disturbance through rescheduling of works. The aforesaid site constraints caused delay in the work programme, which resulted in increased labour and overhead costs. The project was substantially completed in July 2011 with some outstanding rectification and final handover works. We consider the constraints and resistance in the execution of works for the project 26/WSD/06 is exceptional. We have another project of similar scope, namely contract 11/WSD/08, for replacement and rehabilitation of water mains in mid-level areas. The project 11/WSD/08 is expected to be completed in August 2014.

The loss arising from project 6/WSD/06 was attributable to the fluctuation in the price of steel per ton from approximately HK$3,200 per ton in 2007 to approximately HK$8,400 per ton in 2008 and to approximately HK$4,000 in 2009. Material costs constituted approximately 34.6% of the total costs of the project which was significantly higher than the other projects of similar nature. Project 6/WSD/06 has been completed and final account has been issued in September 2012. In order to mitigate the risk of price fluctuation in future, our Group has entered into purchase agreement with supplier to fix the material price.

Given that (i) project 6/WSD/06 was completed on 25 November 2009; (ii) project TK/2008/01 was completed during the Track Record Period and was undergoing the maintenance period as at the Latest Practicable Date; (iii) project 26/WSD/06 was completed and final certificate of completion was issued by the customer on 3 October 2013 after the project had undergone the maintenance period, our Directors expect that most of the costs for the above three projects had been incurred and recognised by our Group in the financial statements during the Track Record Period and there would not be any further material loss to be recognised in the financial statements subsequent to the Track Record Period; (iv) the growth in our revenue for the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 thereby resulting in a significant improvement in our current assets, including the increase in our cash and cash equivalents of approximately HK$64.2 million, which was mainly attributable to more cash receipts from customers, in particular, cash receipts of approximately HK$58.1 million from the customer for project KL/2012/03 and the increase in our trade and other receivables from approximately HK$53.1 million as at 31 March 2013 to approximately HK$84.3 million as at 31 March 2014. The enhancement of our current assets position was partly offset by the increase in our current liabilities during the year ended 31 March 2014, including the increase in amounts due to customers for contract work from approximately HK$14.3 million as at 31 March 2013 to approximately HK$66.7 million as at 31 March 2014, the underlying causes for which are set out in the paragraph headed "Amounts due to customers for contract work" under the section headed "Financial information" and the increase in trade and other payables from approximately HK$58.2 million as at 31 March 2013 to approximately HK$64.5 million as at 31 March 2014, which was generally in line with our revenue growth for the year ended 31 March 2014. Indeed, the net liabilities and net current liabilities position of our Group had been rectified as at 31 March 2014.

In addition, we are currently in the process of negotiation with the customer for claims and settlement of final account to recover part of the loss for project TK/2008/01. We had submitted payment application to the customer for such contract for a total amount of over HK$70 million, inclusive of a claim of approximately HK$10 million, in November 2013 and approximately HK$5.6 million had been paid to our Group up to the Latest Practicable Date.

We were upgraded to Group C (confirmed) under the "Roads and Drainage" category and Group B (confirmed) under the "Site Formation" category on 26 February 2013 and 19 June 2013 respectively, which will further enhance our ability to tender for and secure works projects with larger contract values under these two categories. Since 1 April 2013 up to the Latest Practicable Date, we have submitted 63 tenders in relation to waterworks, landslip preventive and mitigative, and drainage works and building works to the relevant Government departments and private sector. Kwan On – China Geo was awarded a contract of waterworks works by WSD relating to the construction of Butterfly Valley Fresh Water Primary Service Reservoir extension and associated mainlaying (contract number: 4/WSD/11) on 12 September 2013 with an estimated contract sum of approximately HK$286 million and a contract period of approximately 1,217 days. Kwan On – U-Tech 2 was awarded the contract "Water supply to Pak Shek Kok reclamation area, Tai Po – stage 2 phase 2" (contract number: 9/WSD/13) by WSD on 18 December 2013 with an estimated contract sum of approximately HK$60.5 million and a contract period of approximately 1,020 days. In addition, Kwan On was awarded (i) a contract relating to the demolition of Block B of ex-Kennedy Town police married quarters, Kennedy Town, Hong Kong (contract number: SD B807) by ArchSD on 16 September 2013 with an estimated contract sum of approximately HK$11 million and a contract period of approximately 330 days. This contract was completed in August 2014; (ii) a contract relating to Kai Tak Development – Stage 4 infrastructure at former north apron area (contract number: KL/2012/03) by CEDD on 17 September 2013 with an estimated contract sum of approximately HK$811.4 million commencing on 19 September 2013 with a contract period of approximately 1,445 days; and (iii) a contract relating to LPM services (contract number: GE/2012/11) by CEDD on 5 November 2013 with total estimated contract sum of approximately HK$85.3 million and a contract period of approximately 699 days. UEL was awarded a contract in private sector relating to building repairs and maintenance contract on 25 June 2013 with an estimated contract sum of approximately HK$5.7 million and a contract period of 150 days. This contract was completed in December 2013; (iv) a contract relating to the Landslip Prevention and Mitigation Programme, 2008, Package J and Landslip Prevention and Mitigation Works in New Territories (contract number: GE/2013/06) by CEDD on 29 November 2013 with an estimated contract sum of approximately HK$107.6 million and a contract period of approximately 546 days; and (v) a contract relating to the Landslip Prevention and Mitigation Programme, 2008, Package M and Landslip Prevention and Mitigation Works in Lantau North (contract number: GE/2013/17) by CEDD on 6 December 2013 with an estimated contract sum of approximately HK$74.4 million and a contract period of approximately 730 days. Our Directors believe that the above eight contracts will bring in additional steady income stream to our Group and further improve the results of operation and financial position of our Group for the three years ending 31 March 2016.

We will seek new financing from banks upon the award of new contract(s) to strengthen the working capital for daily operation and to meet the working capital for contracts. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

Set out below is a summary of the net profits or losses recorded by each member of our Group for each financial year and the retained earnings or accumulated loss recorded by each of them as at the end of each financial year since the entire equity interests in Kwan On were acquired by us in 1993 and started to act as a main contractor in the provision of waterworks, road works and drainage services and site formation services in Hong Kong:

	Net profits recorded for the financial year	**Net loss recorded for the financial year**	**Retained earnings as at the end of the financial year**	**Accumulated loss as at the end of the financial year**
Kwan On	1996 and financial years since 1998	1993 to 1995 and 1997	Financial years since 1996	1993 to 1995
UEL	1993, 1994, 1997 to 2005, 2008 to 2010 and 2013	1995, 1996, 2006, 2007, 2011 and 2012	2005 and 2010	1993 to 2004, 2006 to 2009, 2011 to 2013
UECL	1993, 1994, 1997 to 2002, 2004, 2008 to 2010 and 2013	1995, 1996, 2003, 2005 to 2007, 2011 and 2012	1993 to 2004 and 2010	2005 to 2009, 2011 to 2013
UEWL	2007 and 2010, and 2013 and 2014	2004 to 2006, 2008, 2009, 2011 and 2012	N/A	Since its establishment in 2003
UBCL *(Note 1)*	1997 to 1999, 2002 to 2004 and 2009 to 2013	1994, 2000 to 2001 and 2005 to 2008	1999, 2000, 2002 to 2004	1994 to 1998, 2001, 2005 to 2013
UCRL *(Note 2)*	1996 and 2009 to 2012	1993 to 1995, 1997 to 1999, 2002 to 2008 and 2013	1996 to 2001	1993 to 1995 and financial years since 2002
UFCL	1993, 1994, 1997, 1998, 2003, 2004, 2009 to 2011 and 2013	1995, 1996, 1999 to 2002, 2005 to 2008 and 2012	N/A	Since 1993

Notes:

1. UBCL had no income or net profit/loss for the years ended 31 December 1995 and 1996 since it had no activity during the period.

2. UCRL was dormant from 1 January to 30 June 2002. UCRL had prepared audited financial statements for the period from 1 January 2000 to 31 December 2002. Accordingly, there was no profit/loss in the years ended 31 December 2000 and 2001.

Kwan On had net assets in all its financial years since 1993. Except for Kwan On, members of our Group had recorded net loss, accumulated loss or net deficit for some of its financial years or as at the end of some financial years since 1993, which was primarily due to the fact that they were principally engaged in provision of subcontracting works to Kwan On or ancillary services to other members of our Group and they would record net loss or accumulated loss if the related service fees charged by them to Kwan On or other members of our Group were not sufficient to cover the actual cost incurred by them and inter-company management fees paid to UEL for administrative support services and sharing of office. UEL, UECL and UEWL mainly act as subcontractors of Kwan On in the execution of contract works in return for an agreed percentage of contract sum of each works contract as subcontracting fee. The turnover of each of UEL, UECL and UEWL is mainly generated from such subcontracting fee. As such, they resulted net loss and had net deficit in the event that the actual cost for undertaking the related works exceeds the agreed percentage of contract sum received from Kwan On. UEL had net deficit as at 31 December 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2011 and 2012. UECL had net deficit as at 31 December 1992, 2006, 2007, 2008, 2011 and 2012. UEWL was engaged in the trading of leasehold property since its establishment up to 30 April 2014. UEWL has net deficit since its establishment in 2003, which was primarily due to (i) the sale of a property during the period from its establishment to 31 March 2004 at loss because of decline in the property price; (ii) no income has been recorded for the years ended 31 March 2005 and 2006 since it had no activity and not undertaken any works during such period; and (iii) the commencement of the contract 6/WSD/06 in the year ended 31 March 2007. However, such contract resulted in a loss mainly due to the fluctuation in the price of steel. The principal activity of UBCL is the provision of general labour to other members of our Group and its turnover was mainly the labour services fee received from other members of our Group. UBCL had net deficit as at 31 December 1994, 1995, 1996, 1997, 1998, 2001 and year end of each respective financial year since 2005 which was primarily due to accumulated losses resulted from the inter-company management fees paid by it to UEL. The principal activity of UCRL is also the provision of general labour to other members of our Group and its turnover was mainly the labour services fee received from other members of our Group. UCRL had net deficit as at 31 December 1993, 1994, 1995 and year end of each financial year since 2002 which was primarily due to accumulated losses resulted from the inter-company management fees paid by it to UEL. UFCL has net deficit since 1993 except for the year ended 31 December 1995. UFCL was engaged in trading of fire protection materials and not involved in any civil engineering activities until the year ended 31 December 2009. Since then, UFCL began to provide diesel and transportation services for other members of our Group. The net deficit of UFCL as at the end of financial years since 2010 when it had engaged in civil engineering activities was primarily due to accumulated losses brought forward from prior years and the inter-company management fees paid by it to UEL.

As at 31 March 2014, we had net current assets and net assets amounted to approximately HK$3.5 million and approximately HK$17.8 million respectively. The increase in net current assets and net assets by approximately HK$29.7 million and HK$30.2 million respectively was mainly attributable to (i) the total comprehensive income generated for the year ended 31 March 2014 of approximately HK$23.6 million which was mainly due to the increase in works contracts awarded during the year; (ii) waiver of amounts due to a Director of approximately HK$9.0 million; and (iii) the growth in our revenue for the year ended 31 March 2014 as compared to that for the year ended 31 March 2013 thereby resulting in a significant improvement in our current assets, including the increase in our cash and cash equivalents of approximately HK$64.2 million, which was mainly attributable to more cash receipts from customers, in particular, cash receipts of approximately HK$58.1 million from the customer for project KL/2012/03 and the increase in our trade and other receivables from approximately HK$53.1 million as at 31 March 2013 to approximately HK$84.3 million as at 31 March 2014. The enhancement of our current assets position was partly offset by the increase in our current liabilities during the year ended 31 March 2014, including the increase in amounts due to customers for contract work from approximately HK$14.3 million as at 31 March 2013 to approximately HK$66.7 million as at 31 March

2014, the underlying causes for which are set out in the paragraph headed "Amounts due to customers for contract work" under the section headed "Financial information" and the increase in trade and other payables from approximately HK$58.2 million as at 31 March 2013 to approximately HK$64.5 million as at 31 March 2014, which was generally in line with our revenue growth for the year ended 31 March 2014.

As at 30 September 2014, we had net current assets and net assets amounted to approximately HK$1.4 million and HK$25.3 million respectively. The decrease in net current assets of approximately HK$2.1 million was mainly due to the cash payment for insurance and the prepaid insurance for projects were classified as non-current assets. The increase in net assets of approximately HK$7.4 million was mainly due to total comprehensive income generated during the six months ended 30 September 2014.

Based on the unaudited management accounts of our Group as at 31 January 2015, the net current assets amounted to approximately HK$6.0 million. The increase as compared with 30 September 2014 was mainly due to net profit contributed for the four months ended 31 January 2015.

The licences granted by WBDB for carrying out Government contract works of various categories were held by Kwan On. Kwan On may undertake the contract by itself or enter into subcontracting agreement with one of the other three member of our Group, namely UEL, UECL and UEWL to execute the contract as subcontractors. As the minimum employed capital and working capital of Kwan On had fulfilled the financial criteria for retention on the Contractor List and the Specialist List, the Group's net current liabilities and net liabilities recorded as at 31 March 2013 did not affect Kwan On's status as an approved contractor for public works. The net current liabilities and net liabilities position of our Group had been rectified as at 31 March 2014.

INDEBTEDNESS

The following table sets out our Group's indebtedness as at the respective financial position dates below:

	As at 31 March 2013	As at 31 March 2014	As at 30 September 2014	As at 31 January 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Current				
Borrowings	21,766	41,490	58,793	49,567
Bank overdrafts	25,836	–	–	–
Finance lease payables	121	118	120	121
Amounts due to Directors	9,805	1,950	1,500	–
Amounts due to related parties	4,962	4,675	–	–
	62,490	48,233	60,413	49,688
Non-current				
Amount due to a director	3,250	–	–	–
Finance lease payables	357	236	176	135
	3,607	236	176	135
	66,097	48,469	60,589	49,823

As at 31 January 2015 for the purpose of this indebtedness statement, our Group's indebtedness consisted of borrowings of approximately HK$49.6 million and finance lease payables of approximately HK$0.3 million. There are no material covenants relating to our Group's outstanding debts. As at 31 March 2013 and 2014 and 30 September 2014, our Group had total borrowings (comprising bank overdrafts, borrowings, finance lease payables and amounts due to Directors and related parties) of approximately HK$66.1 million, HK$48.5 and HK$60.6 million respectively. The decrease in total indebtedness as at 31 March 2014 as compared with 31 March 2013 was primarily due to settlement of bank overdrafts and repayment to Directors by cash received from customers. The increase in total indebtedness as at 30 September 2014 as compared with 31 March 2014 was mainly due to increase in short-term loans drawn down which were utilized for payments to subcontractors and purchase of materials.

As at 31 January 2015, our Group had a total available banking and other facilities of approximately HK$133.4 million, of which approximately HK$66.6 million was utilised and approximately HK$66.8 million was unrestricted and unutilised. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record. Our Group will continue to seek bank financing for new projects upon award of new contracts. We will apply for new financing with banks upon award of new contract(s) in order to strengthen the working capital for daily operation and to meet the working capital for new contracts. We have not experienced any difficulties in obtaining bank loans to finance our operation during the Track Record Period.

Our Directors confirmed we had not materially defaulted or delayed in payments of trade and non-trade payables and borrowings, and/or breaches of finance covenants during the Track Record Period and up to the Latest Practicable Date.

Our Directors intend to apply part of the net proceeds from the Placing of approximately HK$18.2 million (equivalent to approximately 68.1% of the net proceeds) for repayment of part of the outstanding borrowings. Our Group's plans and use of proceeds are set out in the section headed "Statement of Business Objectives and Use of Proceeds" in this prospectus.

Our Directors have given personal guarantees in securing our banking facilities. These personal guarantees will be released on or before the Listing.

(A) Borrowings

Borrowings of our Group contain a repayment on demand clause. Accordingly, all borrowings are classified as current liabilities in the combined statements of financial position. The following table sets out borrowings based on scheduled repayment dates:

	As at 31 March		**As at 30 September**	**As at 31 January**
	2013	**2014**	**2014**	**2015**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)
Within one year or on demand	11,092	35,296	53,908	45,504
In the second year	3,897	2,548	2,502	2,536
In the third to fifth years, inclusive	5,540	3,646	2,383	1,527
Beyond five years	1,237	–	–	–
	21,766	41,490	58,793	49,567

Our Group had borrowings of approximately HK$21.8 million, HK$41.5 million, HK$58.8 million and HK$49.6 million as at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015, which were used for financing of our Group's construction projects and overall expansion of our business.

All of our Group's bank and other borrowings are denominated in Hong Kong dollar and United States dollar and the effective interest rates were as follows:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	%	%	%
Effective interest rates:			
Variable-rate bank loans	2.92 to 7.92	3.75 to 6.50	4.00 to 6.75
Variable-rate other loan	–	5.25	5.25

(B) Bank overdrafts

The balance for bank overdrafts decreased from approximately HK$25.8 million as at 31 March 2013 to nil as at 31 March 2014. The decrease was because of additional cash inflows from receipts from customers. Our Group has no bank overdrafts as at 30 September 2014 and 31 January 2015.

Our Group's bank overdrafts bore interest rates ranging from Hong Kong dollar prime rate to Hong Kong dollar prime rate plus 1.5% or Hong Kong Dollar best lending rate plus 3% per annum as at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015.

(C) Finance lease payables

Finance lease payables represent the obligations to pay the office equipment and motor vehicles under leases. As at 31 March 2013 and 2014, 30 September 2014 and 31 January 2015, the carrying amount of finance lease payables amounted to approximately HK$478,000, HK$354,000, HK$296,000 and HK$256,000 respectively.

The following table sets out the maturities of our Group's finance lease payables as of the dates indicated:

	As at 31 March 2013	As at 31 March 2014	As at 30 September 2014	As at 31 January 2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)
Minimum lease payment payable:				
Not later than one year	134	127	127	127
Later than one year and not later than five years	373	243	180	138
	507	370	307	265
Future finance charges on finance leases	(29)	(16)	(11)	(9)
Present value of finance lease liabilities	478	354	296	256

(D) Pledge of assets

As at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, the bank loans together with bank overdrafts and other banking facilities are secured by:

(a) a leasehold land and building held by a related company beneficially owned by Mr. Tony Wong and Mr. Andy Wong;

(b) accrued benefits of a life insurance contract for Mr. Tony Wong which was surrendered on 19 March 2014 and the loan secured by this contract was settled on 25 March 2014;

(c) bank deposits amounting to approximately HK$31.7 million, HK$24.7 million, HK$39.7 million and HK$49.7 million as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively;

(d) proceeds on certain civil engineering contracts undertaken by our Group;

(e) personal guarantees executed by Mr. Tony Wong and Mr. Kwong and corporate guarantees given by certain entities within the Group;

(f) guarantees in favour of our Group for an amount of HK$4,000,000 with risk sharing factor of 80% as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively, under The Special Loan Guarantee Scheme operated by the Hong Kong Government;

(g) guarantees to the extent of approximately HK$8.6 million, HK$6.8 million, HK$5.8 million and HK$5.2 million as at 31 March 2013, 31 March 2014, 30 September 2014 and 31 January 2015, respectively under the SME Financing Guarantee Scheme operated by the Hong Kong Mortgage Corporation Limited;

(h) proceeds on certain insurance policy of a civil engineering contract undertaken by the Group;

(i) a personal guarantee executed by a director of a subsidiary; and

(j) corporate guarantee executed by a related company beneficially owned by Mr. Andy Wong.

The above (a) will be released upon Listing and to be replaced by a cash deposit of HK$10 million. As at the Latest Practicable Date, the corresponding banks have agreed in principle that the above personal and corporate guarantee will be released and replaced by corporate guarantees to be issued by the Company, and bank loans which guaranteed under Special Loan Guarantee Scheme operated by the Government and the Hong Kong Mortgage Corporation Limited will be fully repaid upon Listing.

Save as aforesaid, there are no material covenants relating to the banking facilities during the Track Record Period and up to the Latest Practicable Date.

Save as aforesaid and apart from intra-group liabilities, we did not have any other outstanding loan capital issued and outstanding or agreed to be issued, term loans, bank overdrafts, other borrowings or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantee or other material contingent liabilities as at 31 December 2014.

Our Directors confirm that, there were no material changes in our indebtedness, contingent liabilities and net current asset position of our Group since 31 January 2015.

(E) Working Capital

We had a total available banking and other facilities of approximately HK$133.4 million and unrestricted and unutilised balance of approximately HK$66.8 million as at 31 January 2015. As at 31 January 2015, we had cash and cash equivalents of approximately HK$29.2 million. We intend to continue to finance our working capital with cash generated from our operations and bank borrowings in the future. As set out in the section headed "Financial Information – Indebtedness", our Group's total indebtedness, which consists of bank overdrafts and borrowings, have increased over the Track Record Period which was primarily due to our Group's financing needs for projects awarded.

We will continue to closely monitor the level of our working capital and make necessary adjustments to our project plans on a timely basis. Our Group has prepared budget forecast for each individual project. In addition, we have adopted the recommendation of the Internal Control Adviser in relation to the preparation of financial and forecast, further details of which are set out under the section headed "Business – Internal Control" in this prospectus. Actual figures are then compared to the budget and forecast and variances are identified. Our Group has prepared an annual budget and cashflow forecast which details the expected major cash inflow and outflow for the coming twelve months and was reviewed and approved by the Board.

In assessing our working capital needs and the sufficiency of available working capital, we have taken into account these projects we had been awarded in the latest financial year ended 31 March 2014 and up to the Latest Practicable Date and the working capital requirement of such projects. Since 1 April 2013 and up to the Latest Practicable Date, Kwan On was awarded 6 public contracts (contract number: KL/2012/03, SD B807, GE/2012/11, GE/2013/06, GE/2013/17 and GE/2013/16) with an aggregate estimated contract sum based on our budget forecast of approximately HK$1,320.37 million. Besides, Kwan On – China Geo and Kwan On – U-Tech 2 had been awarded 2 contracts (contract number: 4/WSD/11 and 9/WSD/13) with estimated contract sum of approximately HK$285.8 million and HK$60.5 million respectively. For contract 4/WSD/11, Kwan On – China Geo subcontracts most of the works to subcontractors who are responsible for the necessary labour, plant, materials and capital to complete the project and therefore our Directors consider the working capital commitment by our Group under such contract is minimal. Please refer to the paragraph headed "Mode of operation of Kwan On – U-Tech 1, Kwan On – China Geo and Kwan On – U-Tech 2" under the section headed "Business" in this prospectus for details. For contract SD B807, our Group subcontracts the works to a subcontractor who will commit working capital for the project. For contract KL/2012/03, the pricing strategy of the Group is to have a high markup for a particular item which will be completed at the early stage. Since commencement and up to 31 March 2014, the amount certified was approximately HK$71 million, while costs incurred amounted to approximately HK$31 million. Our Group expects that the surplus will be sufficient to finance the working capital required in subsequent periods. For contract 9/WSD/13, Kwan On – U-Tech 2 subcontracts most of the works to a subcontractor who will be responsible for the necessary labour, plant, materials and capital to complete the project and therefore our Directors consider the working capital commitment by our Group is minimal. The working capital for daily operation of contracts in progress is mainly financed by cash received from customers and internal resources of our Group. Our Group will also apply for project financing from banks to strengthen the working capital of our Group.

Based on the above and after taking into account the financial resources available to us, including our available credit facilities, internally generated funds and capitalisation of amounts due to related parties and Directors, our Directors consider that we will have sufficient working capital to complete the contracts in progress by 2016 and other contracts to be awarded within the schedule. The Sponsor concurs with the above Directors' view.

(F) Commitments and contingent liabilities

(I) Commitments

Capital commitments of our Group as at 30 September 2014 are set out in Note 30 to the Accountant's Report set out in Appendix I to this prospectus.

As at 31 March 2013 and 2014 and 30 September 2014, our Group was committed to make the following future minimum lease payments in respect of office premises under non-cancellable operating leases which fall due as follows:

	As at 31 March		As at 30 September
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Not later than one year	3,086	2,035	2,775
Later than one year and not later than five years	2,678	612	2,488
	5,764	2,647	5,263

Operating lease payments represent rental payable by our Group for certain of its office premises. Leases and rentals are negotiated for terms ranging from 1 to 3 years. None of the leases includes contingent rentals.

(II) Contingent liabilities

As at 30 September 2014, our Group was involved in certain litigation cases, details of which are set out in Note 32 to the Accountant's Report.

(G) Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from normal trade payables and accrued charges, our Group did not have any mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance lease liabilities or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at the close of business on 30 September 2014.

Save as aforesaid or as otherwise disclosed herein, the Directors have confirmed that there has not been any material change in shareholders, capital commitment and contingent liabilities of our Group since 30 September 2014 up to the date of this prospectus.

KEY FINANCIAL RATIOS

	Year ended 31 March		Six months ended 30 September
	2013	2014	2014
Current ratio[1]	0.8	1.0	1.0
Net profit margin[2]	1.8%	6.0%	2.2%
Return on equity[3]	-46.2%	132.5%	29.4%
Return on assets[4]	4.4%	11.5%	3.0%
Gearing ratio[5]	-387.8%	234.7%	233.9%
Interest coverage[6]	4.5	11.5	10.5

Notes:

1. The calculation of current ratio is based on the current assets divided by current liabilities.

2. Net profit margin is calculated based on the profit and total comprehensive income for the respective year divided by the turnover multiplied by 100%.

3. Return on equity is calculated based on the profit and total comprehensive income for the respective year divided by total equity multiplied by 100%.

4. Return on assets is calculated by the total comprehensive income for the year divided by the total assets as at the respective year end and multiplied by 100%.

5. Gearing ratio is calculated based on the interest-bearing liabilities divided by total equity multiplied by 100%.

6. Interest coverage is calculated by the profit before interest and tax divided by the interest for the respective year.

Current ratio

The current ratio maintained at a relatively stable level at 0.8, 1.0 and 1.0 as at 31 March 2013 and 2014 and the six months ended 30 September 2014.

Net profit margin

Our net profit margins were 1.8%, 6.0% and 2.2% for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. The increase was mainly due to increase in net profit for the year ended 31 March 2014 generated from two projects KL/2012/03 and DC/2012/05, which contributed approximately HK$13.9 million in total and decrease in expected loss recognised of project TK/2008/01 amounted to approximately HK$8.8 million. The decrease in net profit margin for the six months ended 30 September 2014 was mainly due to costs incurred for projects, including 24/WSD/09 and 6/WSD/11 exceeding amounts certified by customers. The remaining amounts were expected to be certified and received upon finalisation of the missing items and variation orders with customers.

Return on equity

The Group's return on equity was approximately -46.2%, 132.5% and 29.4% for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. Negative return on equity was recorded for the years ended 31 March 2013 because our Group had accumulated losses brought forward and thus resulting net deficits as at 31 March 2013. The accumulated losses arose from the recognition of expected loss on contracts, TK/2008/01, 26/WSD/06 and 6/WSD/06, amounted to approximately HK$7.9 million, HK$14.6 million and HK$18.8 million respectively. These three contracts were completed in October 2013, November 2011 and November 2009 respectively. The improvement in return on equity for the year ended 31 March 2014 to approximately 132.5% was attributable to the improvement to net profit to approximately HK$23.6 million for the year ended 31 March 2014 and the continuing improvement of our Group's net assets position as a result of net profit recorded for the year ended 31 March 2014. The decrease in return on equity for the six months ended 30 September 2014 was mainly due to decrease in net profit for the six months ended 30 September 2014.

Return on assets

Return on assets for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 were approximately 4.4%, 11.5% and 3.0% respectively. The increase in return on assets to approximately 11.5% for the year ended 31 March 2014 was due to the increase in net profit to approximately HK$23.6 million for the year ended 31 March 2014. The decrease in return on assets for the six months ended 30 September 2014 was mainly due to decrease in net profit for the six months ended 30 September 2014.

Gearing ratio

The gearing ratios recorded were -387.8%, 234.7% and 233.9% as at 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. Negative gearing ratios were recorded as at 31 March 2013 because of the net liabilities position as at the respective reporting dates. The increase in gearing ratio to 234.7% as at 31 March 2014 was attributable to (i) the decrease in borrowings and overdraft to approximately HK$41.5 million as at 31 March 2014 from approximately HK$47.6 million as at 31 March 2013; and (ii) the further improvement in net assets from a net liabilities position of approximately HK$12.4 million as at 31 March 2013 to a net assets position of approximately HK$17.8 million as at 31 March 2014. The gearing ratio as at 30 September 2014 remained relatively stable as at 31 March 2014.

Interest coverage

Our Group's interest coverage was 4.5, 11.5 and 10.5 for the two years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 respectively. The increase in interest coverage to 11.5 for the year ended 31 March 2014 was attributable to the increase in total comprehensive income to approximately HK$23.6 million for the year ended 31 March 2014. The slight decrease in interest coverage for the six months ended 30 September 2014 was mainly due to the higher operating profit for the year ended 31 March 2014 as a result of reduction in expected loss arising from project TK/2008/01.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules had our Shares been listed on GEM on that date.

PROPERTY INTERESTS

During the Track Record Period and up the Latest Practicable Date, our Group had not owned any properties and leased six properties in Hong Kong. For details of our leased properties, please refer to the paragraph headed "Property Interests" under the section "Business" in this prospectus.

OFF BALANCE SHEET TRANSACTIONS

As at 30 September 2014, except for the contingent liabilities set forth above, our Group has not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. Our Group does not have retained or contingent interests in assets transferred to an unconsolidated entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. Our Group has not entered into any derivative contracts that are indexed to its Shares and classified as shareholder's equity, or that are not reflected in its combined financial statements. Our Group does not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to it or engages in leasing or hedging or research and development services with it.

For the purpose of this statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing as at the close of business on 30 September 2014.

RELATED PARTIES TRANSACTIONS

With respect to the related party transactions set forth in Note 26 of the Accountant's Report set out in Appendix I to this prospectus, our Directors confirm that each transaction set forth therein were conducted on arm's length basis. Our Directors consider that these related party transactions would not distort our results during the Track Record Period, and would not make our historical results not reflective of our future performance.

DIVIDENDS AND DISTRIBUTABLE RESERVES

(A) Dividend policy

Given the accumulated losses recorded by our Group of HK$20.2 million as at 30 September 2014, our Directors consider that all earnings will give priority to finance the continuing development of our business such that our Group will not be able to distribute dividends to our Shareholders in the foreseeable future. Declaration and payment of any dividends would require the recommendation of the Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including results of operations, financial condition, the payment by our Group's subsidiaries of cash dividends to the Company and other factors the Board may deem relevant.

(B) Distributable reserves

As at 30 September 2014, our Company had no reserve available for distribution to our Shareholders.

SUFFICIENCY OF WORKING CAPITAL

Our Directors believe that after taking into account the financial resources available to us, including our available credit facilities, internally generated funds and capitalisation of amounts due to related parties and Directors, we will have sufficient working capital for our present working capital requirements for at least the next 12 months from the date of this prospectus.

UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted combined net tangible assets of our Group, prepared on the basis of the notes set out below, for the purpose of illustrating the effect of the Placing and the Capitalisation Issue on the combined net tangible assets of our Group attributable to the owners of our Company as if the Placing and the Capitalisation Issue had taken place on 30 September 2014. This unaudited pro forma statement of adjusted combined net tangible assets has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the combined financial position of our Group attributable to the owners of our Company had the Placing and the Capitalisation Issue been completed on 30 September 2014 or at any future dates.

	Audited combined net tangible assets attributable to the owners of our Company as at 30 September 2014	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted combined net tangible assets attributable to the owners of our Company**	**Unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company**
	HK$'000	*HK$'000*	*HK$'000*	*HK cents*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the Placing Price of HK$0.3 per Share	17,604	33,933	51,537	5.4

Notes:

(1) The audited combined net tangible assets attributable to the owners of our Company as at 30 September 2014 is extracted from the Accountant's Report set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Placing are based on indicative Placing Price of HK$0.3 per Share, after deduction of the underwriting fees and related expenses of HK$2.0 million payable and borne by our Company in connection with the Placing taking into account the effect of listing expenses of approximately HK$7.3 million that have been charged to profit or loss prior to 30 September 2014, listing expenses of approximately HK$2.4 million borne by the Vendors for the sale of Sale Shares and approximately HK$6.9 million that the Vendors have agreed to reimburse in its capacity as shareholders, when received by the Company upon Listing, will be accounted for as a capital contribution to our Company.

(3) The unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company is calculated based on 960,000,000 Shares in issue immediately following the completion of the Placing and the Capitalisation. It does not take into account any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus or otherwise.

(4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets to reflect any trading results or other transactions of our Group after entered into subsequent to 30 September 2014.

QUANTITATIVE AND QUALITATIVE INFORMATION ABOUT FINANCIAL RISKS

Our Group's principal financial assets are trade and other receivables, amounts due from related parties and cash and bank balances that derive directly from our operations. Principal financial liabilities of our Group include trade and other payables, borrowings and amounts due to directors and related parties. The main purpose of these financial liabilities is to finance our Group's operations. Our Group has not issued and does not hold any financial instruments for trading purposes at the end of each of the Track Record Period. The main risks arising from our Group's financial instruments are credit risk, liquidity risk and interest rate risk. Our Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for our shareholders.

(a) Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. Our Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from amounts due from directors and related parties, and deposits with banks and life insurance investment.

The credit risk of our Group's trade and retention receivables is concentrated, since 89%, 88% and 94% of which was derived from two major customers as at 31 March 2013 and 2014 and 30 September 2014, respectively.

Our Group's customers are mainly government departments/organisation and reputable corporations and thus credit risk is considered to be low. Credit risk on other receivables is minimised as our Group performs ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually and collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. The credit policies have been followed by our Group during the Track Record Period and are considered to have been effective in limiting our Group's exposure to credit risk to a desirable level. None of our Group's financial assets are secured by collateral or other credit enhancements.

Our Group's major bank balances and interest in an insurance contract are deposited with banks and underwritten by an insurer with good reputation and with high credit-ratings assigned by international credit-rating agencies and hence management does not expect any losses from non-performance by these banks and the insurer.

(b) Liquidity risk

In the management of liquidity risk, our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants in order to maintain sufficient reserves of cash and adequate committed lines of funding from major banks to meet its liquidity requirements in the short and long term. The liquidity policies have been followed by our Group during the Track record Period and are considered to have been effective in managing liquidity risk.

The following table details our Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which our Group can be required to pay. Specifically, bank loans with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the Track Record Period.

	On demand	**Less than 3 months**	**3 to 12 months**	**Over 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 March 2013					
Trade and other payables	32,834	24,511	–	899	58,244
Finance lease payables	–	34	100	373	507
Borrowings	21,766	–	–	–	21,766
Bank overdrafts	25,836	–	–	–	25,836
Amounts due to Directors	9,805	–	–	3,250	13,055
Amounts due to related parties	4,962	–	–	–	4,962
	95,203	24,545	100	4,522	124,370
As at 31 March 2014					
Trade and other payables	54,378	5,810	1,328	3,014	64,530
Finance lease payables	–	32	95	243	370
Borrowings	41,490	–	–	–	41,490
Amounts due to directors	1,950	–	–	–	1,950
Amounts due to related parties	4,675	–	–	–	4,675
Amount due to other partner of a joint operation	44	–	–	–	44
	102,537	5,842	1,423	3,257	113,059

	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to 12 months *HK$'000*	Over 1 year *HK$'000*	Total *HK$'000*
As at 30 September 2014					
Trade and other payables	60,528	66,903	–	6,784	134,215
Finance lease payables	–	32	95	180	307
Borrowings	58,793	–	–	–	58,793
Amounts due to directors	1,500	–	–	–	1,500
	120,821	66,935	95	6,964	194,815

Bank and other loans with a repayment on demand clause are included in the "on demand" time band in the above maturity analysis. As at 31 March 2013 and 2014 and 30 September 2014, the aggregate undiscounted principal amounts of these bank loans amounted to approximately HK$21.8 million, HK$41.5 million and HK$58.8 million, respectively. Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the lenders will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements and the principal and interest cash outflows according to the scheduled repayment dates are set out as follows:

	Less than 1 month *HK$'000*	1 to 3 months *HK$'000*	3 to 12 months *HK$'000*	Over 1 year *HK$'000*	Total *HK$'000*
Borrowings					
At 31 March 2013	7,879	687	3,093	11,431	23,090
At 31 March 2014	17,373	2,552	16,170	6,505	42,600
At 30 September 2014	28,708	19,751	6,011	5,083	59,553

(c) Interest rate risk

Our Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances, borrowings and bank overdrafts. Interest charged on our Group's borrowings are at variable rates. Our Group currently does not have a policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Our Group is also exposed to fair value interest rate risk in relation to the short-term bank deposits. However, management considers the fair value interest rate risk on these deposits is insignificant as they are relatively short-term. Our management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank balances, borrowings and bank overdrafts. The analysis is prepared assuming that the amount of assets and liabilities outstanding at the end of each of the Track Record Period were outstanding for the whole year/period. 25 basis points and 50 basis points increase or decrease represent management's assessment of the reasonably possible change in interest rates of bank balances, bank borrowings and bank overdrafts, respectively. The calculation of 25 basis points decrease in interest rates of bank balances excluded the bank balances in Hong Kong of, HK$31.5 million, HK$87.7 million and HK$77.8 million at 31 March 2013 and 2014 and 30 September 2014, respectively, which carried an interest rate below 0.25%.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the exposures at the end of the Track Record Period do not reflect the exposures during the Track Record Period.

If interest rates on bank balances had been 25 basis points higher/lower and all other variables were held constant, the potential effect on our Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	Year ended 31 March		**Six months ended 30 September**
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
Increase/(decrease) in profit for the year/period			
– as a result of increase in interest rate	6	8	4
– as a result of decrease in interest rate	(6)	(8)	(4)

If interest rates on borrowings and bank overdrafts had been 50 basis points higher/lower and all other variables were held constant, the potential effect on our Group's post-tax profit for the years ended 31 March 2013 and 2014 and the six months ended 30 September 2014 is as follows:

	Year ended 31 March		**Six months ended 30 September**
	2013	**2014**	**2014**
	HK$'000	*HK$'000*	*HK$'000*
(Decrease)/increase in profit for the year/period			
– as a result of increase in interest rate	(200)	(175)	(123)
– as a result of decrease in interest rate	200	175	123

(d) Capital risk management

Our Group's objectives when managing capital are to safeguard our Group's ability to continue as a going concern in order to provide returns for shareholder and to maintain an optimal capital structure to reduce the cost of capital.

Our Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, our Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made during the Track Record Period.

Our Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt is calculated as the total of amounts due to customers for contract work, trade and other payables, finance lease payables, borrowings, amount due to other partner of a joint operation, amounts due to Directors and related parties and bank overdrafts, and less cash and cash equivalents. Capital includes equity attributable to owners of our Company.

	As at 31 March 2013	**As at 31 March 2014**	**As at 30 September 2014**
	HK$'000	*HK$'000*	*HK$'000*
Total debt	138,595	179,776	219,032
Less: Cash and cash equivalents	(2,844)	(67,041)	(42,153)
Net debt	135,751	112,735	176,879
Equity attributable to the owners of our Company	(15,625)	13,418	17,604
Net debt and equity	120,126	126,153	194,483
Gearing ratio	113%	89%	91%

Our Group had both net current liabilities and net liabilities as at 31 March 2013. In light of both the recovery of net current liabilities and net liabilities to net current assets and net assets as at 31 March 2014 and 30 September 2014, our Directors consider our Group can continue in business as a going concern.

(e) Foreign exchange risk

Our Company does not have any exposure to foreign exchange risk.

NO MATERIAL ADVERSE CHANGE

Listing-related expenses is estimated to be approximately HK$18.6 million, of which approximately HK$7.9 million is expected to be recognised as expenses in the year ending 31 March 2015. Accordingly, the financial performance of our Group for the year ending 31 March 2015 will be affected.

Save as the above, our Directors confirm that since 30 September 2014 (being the date on which the latest financial information of our Group was reported in the Accountant's Report set out in Appendix I to this prospectus) and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of our Group.